



# NEWS TO USE

A newsletter for PERSI Employers

December 2004

- 2005:
  - Interest rates
  - Contribution limits
  - COLAs
  - ERIPs/401(k)

## 17.51% interest to be paid in 2005

### Interest Paid to Member Accounts

Effective January 1, 2005, the regular interest rate members receive on their PERSI Base Plan accounts will be 17.51% for the year. This is an all-time-high interest rate for PERSI.

The regular interest rate credited to member accounts is equal to PERSI's net investment return rate. The rate for each calendar year is based on the annual net rate of return at the end of the previous fiscal year (June 30). PERSI had a net return of 17.51% for fiscal year 2004.

### Interest Paid for Buybacks

The interest charged to members who are making repayments to the Base Plan for 2005 is 5.25%. This is based on the 3-year average of the Prime Rate plus 1%. (Determined as of June 30 the previous year to be effective January 1 each year.) Interest paid by a member goes into his/her own account, not to PERSI.

If a member is currently making tax deferred payments, and wants to begin additional payments to pay off the total faster, he/she may do so at the same locked interest rate of the original payment.

There is no limit on how long a member may take to repay as long as he/she covers the interest. If a member terminates work, he/she may continue to make taxed payments at the locked-in interest rate.

## 2005 contribution limits for 401(k), 403(b) and 457 plans

### Limits for 401(k), 403(b) and 457 Plans

The annual limits for voluntary contributions to 457, 403(b) and 401(k) plans have been increased to \$14,000 for 2005, and will increase by \$1,000 to \$15,000 in 2006. After 2006, limits will be adjusted for inflation annually in \$500 increments.

For 2005, you may contribute 1 - 100% of your income to the Choice Plan 401(k) as long as you don't exceed the \$14,000 limit.

The coordination of 457 deferrals with 401(k) or 403(b) deferrals was eliminated a few years ago.

If you are deferring to a 457 plan and a 401(k) plan OR a 457 Plan and a 403(b) plan, you may, in most cases, contribute \$14,000 to each plan. The coordination between 401(k) and 403(b) plans still exists; so in 2005, you are limited to total contributions of \$14,000 between both plans.

### Catch-up Provision

Once you turn age 50, you may be eligible to make catch-up contributions to your Choice Plan. To be treated as "catch-up eligible" you must turn age 50 during the calendar year in which you make catch-up

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## Board recommends 2.7% COLA, 0.8% retro COLA to return retirees to 100% purchasing power

The PERSI Retirement Board is recommending a full discretionary Cost of Living Allowance (COLA) of 2.7% for all PERSI retirees along with a 0.8% retro COLA to return all PERSI retirees to 100% purchasing power. PERSI's investments earned 17.51% after expenses in Fiscal Year 2004 and the fund's amortization period is below 25 years, allowing the Retirement Board to grant the full COLA.

Most private pension plans do not grant COLAs, so over the years, pensioners lose considerable purchasing power due to inflation.

The 2.7% COLA equals the increase in the Consumer Price Index (CPI) for the year, and consists of a 1% mandatory COLA and a 1.7% discretionary COLA. By law, PERSI's COLA cannot exceed the CPI or 6%, whichever is less. The 0.8% retro COLA makes up for 2003 when low investment returns did not allow PERSI to grant the full COLA.

The COLA begins March 1, 2005, unless the legislature modifies it by the 45th day of the legislative session. The legislature has never modified PERSI's recommendation.

## 2005 contribution limits for 401(k), 403(b) and 457 plans

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contributions. The additional catch-up contribution is \$4,000 in 2005, and will increase another \$1,000 in 2006, after which it will be indexed. This means that if you turn age 50 in 2005, you may contribute \$18,000 to the Choice Plan 401(k).

You may take advantage of the 401(k) or 403(b) catch-up provisions even if you are planning to use the catch-up with your 457 plan. Be sure to check with your 403(b) or 457 plan administrator or your employer to see about contribution and catch-up limits for those plans.

### IRA Contribution Increases

You may also make after tax contributions to traditional and Roth IRAs. In 2005-2007 you may contribute \$4,000. In 2008, the limit is \$5,000. After 2008, the limit will be adjusted annually for inflation in \$500 increments. Check with your IRA plan to be sure of the limits.

### Sunset Provision

The law contains a "sunset" provision that calls for a return to prior laws in 2011. Unless this provision is repealed before 2011, the catch-up provision and higher limits will no longer be available. So, take this chance to increase your contributions, save on taxes and better prepare yourself for retirement.

### Changing 401(k) Contributions

To begin or change your Choice Plan contributions, complete a Choice Plan Enrollment form, which is available at [www.persi.state.id.us](http://www.persi.state.id.us) and return it to your payroll office at work.

## Terminated members may defer ERIP funds to Choice Plan 401(k) only if their account remains active

A few teacher members have terminated employment, closed out their Choice Plan 401(k) accounts (either through withdrawal, rollover, or Purchase of Service), and then received Early Retirement Incentive Plan (ERIP) income that they want to defer into the Choice Plan.

The member cannot defer income from a PERSI employer into the Choice Plan 401(k) account once the 401(k) account has been closed.

A member who has terminated employment and then receives ERIP income may defer some or all of the incentive pay to the Choice Plan only if:

- the member's Choice Plan account is still active,

- the funds are received during the employee's final pay period or immediately thereafter, and not more than 30 days after termination, and
- the amount of the contribution does not exceed the member's voluntary contribution limits for the calendar year.

To avoid any possible rejection of contributions to the Choice Plan 401(k), employers should include ERIP income with the member's payroll on a regular transmittal to PERSI while the member is still active, or immediately following termination, not to exceed 30 days after termination.

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## Update those addresses!

Employee addresses may seem like small details, but they are vitally important to PERSI for our communications with our members.

The addresses you provide to us through your transmittals are the only ones we use to mail members quarterly Choice Plan 401(k) statements, annual Base Plan Benefit Statements, newsletters, retirement estimates and other correspondence. Any address changes or updates we may make on our end are automatically overridden by your transmittals, so the addresses you have need to be the most up-to-date.

Please be sure that every time you learn of an employee address change that you update it on your transmittal. Thank you for your help!